

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

RSC-01 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 INT-05 AGR-10 SAJ-01

OES-05 FEAE-00 /132 W

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R 101907Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7180

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 00472

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 10

BEGIN SUMMARY: THE SAVINGS TO INCOME RATIO ROSE TO A RE-

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CORD 13.1 PERCENT DURING THIRD QUARTER 1974, WITH REAL

DISPOSABLE INCOME INCREASING 4.5 PERCENT AND THE VOLUME OF CONSUMER PURCHASES INCREASING 1.5 PERCENT. THE VOLUME OF RETAIL SALES INDEX ROSE FROM 111.6 IN OCTOBER TO 112.9 IN NOVEMBER. THE "SOCIAL CONTRACT" CAME UNDER ADDITIONAL PRESSURE AS THREE PUBLIC SECTOR WAGE SETTLEMENTS RESULTED IN PAY INCREASES AVERAGING ABOUT 30 PERCENT. WHILE IMPORTS OF STEEL AND AUTOMOBILES ROSE SHARPLY DURING 1974, DOMESTIC PRODUCTION IN THESE 2 MAJOR UK INDUSTRIES FELL BY 16.1 PERCENT AND 12 PERCENT RESPECTIVELY. THE BANK OF ENGLAND HAS ISSUED LETTERS TO ALL AUTHORIZED FOREIGN EXCHANGE BANKS WITH RECOMMENDATIONS ON A CODE OF CONDUCT FOR FOREIGN EXCHANGE TRANSACTIONS. A MEETING BETWEEN THE TRADE UNIONS COUNCIL, THE CONFEDERATION OF BRITISH INDUSTRY AND THE GOVERNMENT ENDED WITHOUT AGREEMENT ON WAYS TO TACKLE UK ECONOMIC CRISIS.

STERLING STRENGTHENED AGAINST THE DOLLAR AND REMAINED RELATIVELY STEADY VIS-A-VIS MAJOR EUROPEAN CURRENCIES. AFTER AN INITIAL DROP, THE PRICE OF GOLD ROSE \$4.50 OVER THE WEEK. END SUMMARY

1. ACCORDING TO UK DATA JUST RELEASED, THE RATIO OF SAVINGS TO INCOME ROSE TO A RECORD 13.1 PERCENT IN THIRD QUARTER 1974. THIS COMPARES WITH A SAVINGS/INCOME RATIO OF 10.7 PERCENT IN SECOND QUARTER 1974, AND AN AVERAGE RATIO IN THE LAST FEW YEARS OF ABOUT 10 PERCENT. ALTHOUGH THE SAVINGS RATIO OFTEN EXHIBITS SHARP FLUCTUATIONS ON A QUARTER TO QUARTER BASIS, THIS SUBSTANTIAL PERCENTAGE RISE GIVES SUPPORT TO THE PROPOSITION THAT UK RESIDENTS TENDED TO PUT MORE ASIDE FOR FUTURE NEEDS DESPITE ANTICIPATION OF RISING PRICES. OVER THE PERIOD THIRD QUARTER COMPARED TO SECOND QUARTER, REAL DISPOSABLE INCOME WENT UP 4.5 PERCENT, WHILE THE VOLUME OF CONSUMERS' EXPENDITURE INCREASED 1.5 PERCENT.

2. THE VOLUME OF RETAIL SALES SHOWED IMPROVEMENT IN NOVEMBER AS THE SEASONALLY ADJUSTED INDEX ROSE FROM OCTOBER'S LEVEL OF 111.6 (1971 EQUALS 100) TO 112.9. TAKING THE FIRST 11 MONTHS OF THE YEAR, THE AVERAGE VOLUME WAS 0.5 PERCENT BELOW THE LEVEL RECORDED DURING THE CORRESPONDING PERIOD IN 1973.

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3. THE LABOR GOVERNMENT'S HOPE FOR MODERATION OF WAGE DEMANDS SUFFERED A SERIOUS SETBACK AS THE FIRST THREE PUBLIC SECTOR SETTLEMENTS THIS WINTER RESULTED IN TOTAL PAY INCREASES OF ABOUT 30 PERCENT FOR CURRENT CONTRACTS. THE 3 GROUPS COVER LOCAL AUTHORITY, WATER AND GAS MANUAL WORKERS. THE LATEST OF THE 3 SETTLEMENTS, WHICH COVERS SOME 41,000 MEMBERS OF THE GENERAL AND MUNICIPAL WORKERS UNION

(GMWU), WHEN COMBINED WITH THRESHOLD PAYMENTS ALREADY BEING PAID FOR PAST INFLATION, YIELDED AVERAGE ANNUAL WAGE INCREASES OF ROUGHLY 34 PERCENT. MORE IMPORTANTLY, THE SETTLEMENT REFLECTS SUCCESSFUL ARGUMENTATION BY THE GMWU THAT ITS MEMBERS SHOULD HAVE A SUBSTANTIAL INCREASE IN PAY IN ANTICIPATION OF FUTURE INFLATION. THE SETTLEMENT, REGARDLESS OF TECHNICAL ARGUMENTS AND INTERPRETATIONS, WILL BE VIEWED BY OBSERVERS AS FALLING WELL OUTSIDE THE LIMITS SET FORTH IN THE "SOCIAL CONTRACT."

4. TWO OF BRITAIN'S MAJOR INDUSTRIES, STEEL AND AUTOMOBILE MANUFACTURING, RECORDED DECREASES IN PRODUCTION LAST YEAR

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

RSC-01 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 INT-05 AGR-10 SAJ-01

FEAE-00 OES-05 /132 W

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R 101907Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7181

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

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OF 16 PERCENT AND 12 PERCENT RESPECTIVELY, COMPARED WITH 1973 LEVELS. THE WORST HIT SECTOR OF THE STEEL INDUSTRY WAS THE NATIONALIZED BRITISH STEEL CORPORATION WHOSE OUTPUT WAS 19.4 PERCENT BELOW THE 1973 LEVEL. THE AUTO INDUSTRY PRODUCED ABOUT 1.5 BILLION UNITS IN 1974, AN ESTIMATE.
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MATED 500 MILLION UNITS BELOW CAPACITY. LABOR DISPUTES AND MATERIAL SHORTAGES ARE CITED AS THE TWO PRIMARY FACTORS WHICH LED TO THE LOWEST LEVELS OF OUTPUT IN THESE 2 INDUSTRIES SINCE 1962. LACK OF DEMAND CANNOT BE CITED AS A MAJOR CAUSE SINCE IMPORTS OF BOTH STEEL AND CARS ROSE SHARPLY OVER THE YEAR.

5. THE BANK OF ENGLAND HAS SENT LETTERS TO ALL AUTHORIZED FOREIGN EXCHANGE BANKS IN THE UK REQUESTING DETAILED INFORMATION ON FOREIGN EXCHANGE DEALING ACTIVITIES. THE REQUEST ASKED FOR DETAILS OF THE FOREIGN EXCHANGE DEALING AUTHORITY GRANTED BY HEAD OFFICES TO OVERSEAS BRANCHES, THE LIMITS IMPOSED UPON THEM, AND THE FREQUENCY WITH WHICH FOREIGN EXCHANGE POSITIONS HAVE TO BE REPORTED. THE LETTERS ALSO RECOMMEND A CODE OF CONDUCT WHICH THE BANKS SHOULD FOLLOW, WHICH WOULD MINIMIZE THE RISK OF HEAVY FOREIGN EXCHANGE LOSSES. THESE INCLUDE RECOMMENDATIONS ON HOW MANAGEMENT CAN REDUCE THE POSSIBILITY OF INDIVIDUAL DEALERS TRADING BEYOND THEIR LIMITS (THE CAUSE OF LAST YEAR'S 33 MILLION POUND LOSS AT LLOYDS LUGANO BRANCH) AND CHANGES IN MANNER IN WHICH EXCHANGE TRANSACTIONS ARE CONFIRMED. WHILE THE RECOMMENDATIONS DO NOT CARRY ANY LEGAL FORCE, IT IS EXPECTED THAT THE BANKS WILL ADHERE TO THE RECOMMENDED CODE.

6. UNDER THE CHAIRMANSHIP OF PRIME MINISTER WILSON, THE GOVERNMENT, THE TRADE UNIONS COUNCIL (TUC) AND THE CONFEDERATION OF BRITISH INDUSTRY (CBI) MEETING AT THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL ON JANUARY 8 FAILED TO REACH ANY AGREEMENT ON AN APPROACH TO SOLVING THE U.K.'S ECONOMIC WOES. A MAJOR SPLIT OCCURRED DURING THE DISCUSSION OF THE DETERIORATING UNEMPLOYMENT AND INDUSTRIAL INVESTMENT SITUATIONS. THE TUC CALLED FOR AN END TO RISING UNEMPLOYMENT COUPLED WITH INCREASED CAPITAL INVESTMENT BY INDUSTRY

THE CBI RESPONDED THAT NEITHER UNEMPLOYMENT NOR INVESTMENT PROSPECTS COULD BE SIGNIFICANTLY IMPROVED UNTIL INFLATION, THE REAL PROBLEM, WAS BROUGHT UNDER CONTROL. IN REJOINER THE TUC REPLIED THAT IF UNEMPLOYMENT CONTINUED TO RISE, UNIONS WOULD STEP UP WAGE DEMANDS IN ORDER TO MAINTAIN LIVING STANDARDS. THE MEETING BROKE UP WITHOUT SETTLEMENT OF THE DISPUTE AND WITH AGREEMENT ONLY TO MEET AGAIN ON A UNCLASSIFIED

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BILATERAL BASIS.

7. PRESS REPORTS INDICATE THAT UK GOVERNMENT HAS ASSURED OIL COMPANIES THAT EXPECTED PROFITS WILL REMAIN UNCHANGED BY THE ACCEPTANCE OF 51 PERCENT STATE PARTICIPATION IN NORTH SEA OIL. ALTHOUGH NO PRECISE DETAILS ARE AVAILABLE, THE GOVERNMENT HAS APPARENTLY OFFERED ASSURANCES THAT PARTICIPATION TERMS WILL BE DESIGNED SO AS TO LEAVE THE COMPANIES WITH THE SAME PROFIT FROM A 49 PERCENT SHARE OF OUTPUT AS THEY HAD PREVIOUSLY EXPECTED FROM 100 PERCENT OWNERSHIP. WHETHER THIS IS MEANT TO APPLY TO THE RATE OF RETURN OR EXPECTED CASH FLOW IS UNCERTAIN. (SEE LONDON 15893.)

8. STERLING REMAINED RELATIVELY STRONG VIS-A-VIS THE DOLLAR, CLOSING THURSDAY (1/9) AT 2.3500, UP 165 POINTS OVER LAST THURSDAY. THERE WAS SOME WEAKENING MID-WEEK AGAINST THE EUROPEAN CURRENCIES, BUT ON A TRADE-WEIGHTED BASIS, THE STERLING DEPRECIATION (SINCE SMITHSONIAN) WAS MEASURED AT 21.7 PERCENT, UNCHANGED FROM LAST THURSDAY'S LEVEL.

9. THE PRICE OF GOLD ON THE LONDON MARKET FELL EARLY IN THE WEEK TO \$169.00 (1/6) BUT CLOSED AT \$179.00 ON THURSDAY (1/9), UP \$4.50 FROM LAST THURSDAY'S CLOSE.

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L-02 H-02 PA-02 PRS-01 USIA-15 INT-05 AGR-10 SAJ-01

OES-05 FEAE-00 /132 W

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R 101907Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7182

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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10. THE FORWARD DISCOUNT ON STERLING EASED OVER THE WEEK.

	1/2	1/9	CHANGE
1 MONTH	1.95	1.35	DOWN 0.60
3 MONTHS	5.15	4.35	DOWN 0.80

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6 MONTHS	8.40	7.90	DOWN 0.50
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(ALL FIGURES IN CENTS)

11. EURODOLLAR RATES DROPPED SIGNIFICANTLY THROUGHOUT THE WEEK.

	1/2	1/9	CHANGE
1 MONTH	9-13/16	8-1/2	DOWN 1-5/16
3 MONTHS	10-1/4	8-7/8	DOWN 1-3/8
6 MONTHS	10-1/4	8-7/8	DOWN 1-3/8

12. LOCAL AUTHORITY DEPOSIT RATES EASED THROUGHOUT THE WEEK.

	1/2	1/9	CHANGE
1 MONTH	10-3/4	10-5/8	DOWN 1/8
3 MONTHS	13-1/8	12-7/16	DOWN 11/16
6 MONTHS	13-1/4	12-7/8	DOWN 3/8

13. THE BANK OF ENGLAND MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, JANUARY 10.

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Message Attributes

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Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
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Declassified/Released
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05 JUL 2006

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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 10 BEGIN SUMMARY: THE SAVINGS TO INCOME RATIO ROSE TO A RE-
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006